SPECIAL REPORT
CANADA - HUDSON'S BAY COMPANY

IPA INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

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Another Department Store Exits, Opening Opportunities for Investors and Tenants

The Bay begins liquidation. Established in 1670, the Hudson's Bay Company (HBC) is the nation's oldest retailer, initially operating a monopoly over Canada's fur trade. It built a network of trading posts along waterways, which later evolved into major Canadian cities. HBC then transitioned from fur trading to department store retailing in the early 20th century, eventually operating over 80 stores across the country and becoming one of Canada's most recognizable brands. In 2008, HBC was sold to a U.S. private equity shop, where poor management, e-commerce, the pandemic and recent trade tensions led to its demise in March 2025. All but six department stores are now set for closure, bringing millions of square feet of retail space back on the market. While HBC's liquidation does pose a challenge, many believe this provides opportunities for investors and tenants alike.

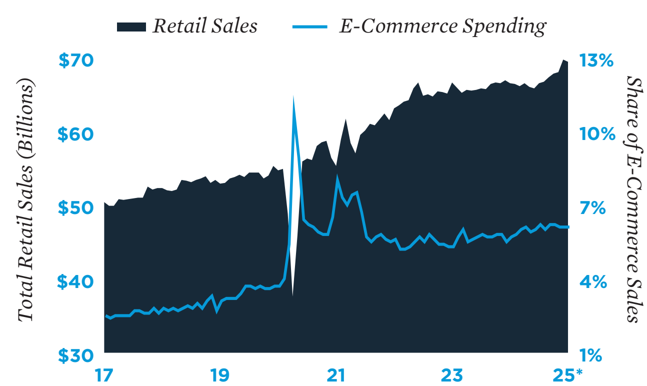
Similar events have happened in the recent past. HBC's closure is one of Canada's largest and most nostalgic, but it is not a new trend. In 2023, Nordstrom announced the closure of all 13 Canadian stores. Sears did the same in 2017, which at its peak operated nearly 300 locations, and before that Zellers, later becoming Target, announced it would close all 133 stores in 2015. These department store closures were mainly centered around key themes, such as poor management, shifts in consumer behaviour and the emergence of e-commerce. All three, amplified by the pandemic, affected HBC. Although the Nordstrom, Sears and Target vacancies were filled, the rise in online shopping has significantly re-shaped Canada's retail sector.

E-commerce disrupting sector. Department stores are facing mounting pressures due to changing consumer preferences and the inability to adapt, which accelerated during the pandemic. E-commerce sales surged 133 per cent year over year in April 2020, accounting for an 11 per cent share of total retail sales. This drove 35 million square feet of industrial net absorption in 2021, pushing the nation's vacancy rate to an all-time low of 1.1 per cent and facilitating a peak annual rent growth of 20 per cent. At the same time, Canada's retail vacancy rate inched higher, as greater online access to discretionary goods and less in-store foot traffic hurt retailers slow to adapt, such as Nordstrom and HBC. While e-commerces' share of total sales has since moderated to just over 6 per cent in early 2025, it is double the pre-pandemic average, indicating a structural change within Canada's retail landscape.

Retail outlook is positive. Coming out of the pandemic, some believed retail would struggle; however, the property sector has since been re-shaped, with some formats now viewed as top investment options. On the demand side, historic population growth of 8 per cent over the past three years has increased Canada's consumer base. Amid cost of living challenges, tariff uncertainties and changing consumer preferences, spending was redirected towards essential and health, as well as experiential retail. On the supply side, e-commerce risks and elevated construction costs have curbed development, resulting in limited property supply. Instead of struggling, retail vacancy trended down and is forecast to end 2025 with a sub-2 per cent reading. Annual rent growth should also hover around the pace of inflation.

Closures offer opportunities. Given HBC's large footprint, the amount of vacant space coming back to market is significant, which does pose a risk to property owners. That said, high-quality availabilities are extremely scarce, and with these stores having prime locations, there is likely to be strong tenant demand and upside potential for investors. Though owners may need to invest resources to update the spaces, as retailers are unlikely to reuse the floorplans as is, HBC vacating still offers a chance to unlock value through highest-and-best use strategies. This could manifest in higher net operating incomes, as long-term leases held below-market rents and were a drag on building performance. Redevelopment could also be valuable, with spaces demolished and/or re-purposed as mixed-use. Regardless, the closure of HBC could drive value creation over the medium to long term.

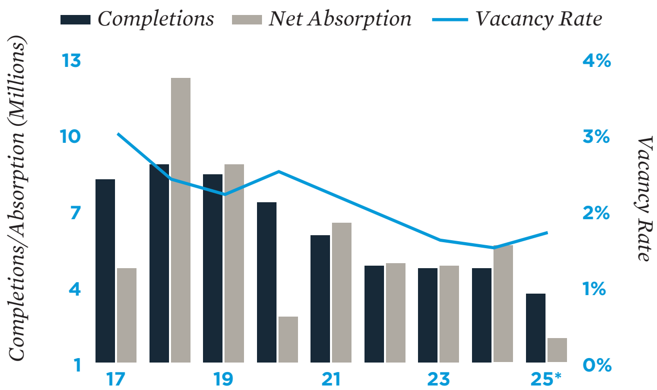
E-Commerce Structurally Changing Retail Sector



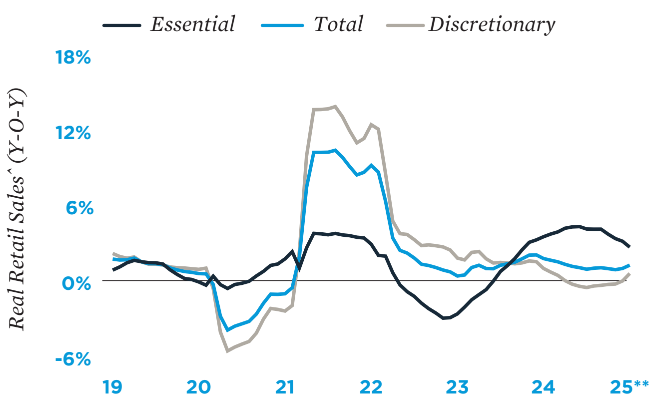
* Through January

Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada

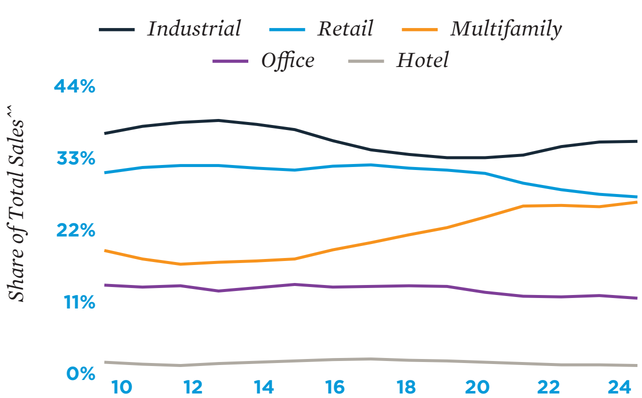
Market Remains Tight Amid Limited Supply



Essential Spending Has Driven Sales



Retail Properties a Top Choice for Investors



** Forecast; ** Through January; ^ Trailing 12-month total; ^^ Trailing 5-year total*

Retail Property Trends

Consumer trends fuel select retail demand. One path to unlock value is dividing stores into smaller units and leasing them at a higher rent. An example was the Nordstrom in Toronto's Eaton Center, where the owner re-created the space to attract experiential retailers. These could include interactive or immersive stores, pop-ups and/or larger brands aiming to create an engaging experience rather than just transactional shopping — a trend being driven by modern-day consumers, who are looking for more than a material good. With the rise of e-commerce, retailers are adopting omnichannel as well, blending physical stores with digital experiences amid online purchase and delivery options. In addition to experiential retail, consumers have also been redirecting spending to essential-based products, making grocery, health and drug stores a strong replacement option too.

Redevelopment offers upside. Another option for vacated department stores is to demolish and redevelop. With Canada's multifamily vacancy rate ending 2024 at 2.2 per cent and annual rent growth peaking at 8.4 per cent in 2023, housing demand and affordability challenges are acute. As such, there is a growing need for mixed-use residential development with quick retail access. These multi-purpose projects allow for diversification, and by injecting much-needed housing supply into a high demand market, they are also adding value in the form of highest-and-best use.

Select retail generating investor appetite. The share of total retail investment sales has trended down in recent years due to the rising risk of e-commerce and the global health crisis redirecting activity towards properties seeing stronger rent growth. Despite this, retail continues to hold as the second-largest share. Select formats have seen robust tenant demand and strong rent gains in recent years, stoking investor appetite. For example, grocery-anchored, neighbourhood centers – especially in more suburban areas – have benefitted from historic population growth and redirected consumer spending amid higher costs and affordability challenges. Given limited availabilities and muted development activity, these assets generate healthy cash-flow and offer higher cap rates. Meanwhile, these properties, particularly some vacated by HBC, come with large parcels of land in prime locations, offering future intensification potential. As a result, they are becoming attractive to investors with long-term strategies.

Sources: IPA Research Services; Altus Data Solutions; CMHC; Capital Economics; CoStar Group, Inc.; Statistics Canada

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